GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1040
ANSWERED ON:27.07.2001
DIRECTIONS ISSUED BY RBI
GOWDAR MALLIKARJUNAPPA

Will the Minister of FINANCE be pleased to state:

(a) whether the RB! has asked all banks - public sector, private, foreign and cooperative banks not to deal with four more cooperative banks in addition to Madhavpura Bank and have also issued a circular in this regard;

(b) if so, the details thereof and the other restrictions imposed by the RBI;

(c) to what extent the RBI has taken steps to check such type of misuse by the banks;

(d) whether the Madhavpura Bank and the other banks have been categorized as weak banks; and

(e) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI GINGEE N. RAMACHANDRAN):

(a) to (c) Reserve Bank of India (RBI) has reported that it has not asked banks (public sector,private, foreign and cooperative) not to deal with four other cooperative banks alongwith the Madhavpura Mercantile Co-operative Bank. However, with a view to strengthen and streamline the operations/functioning of urban co-operative banks, RBI has announced certain measures whichinclude, inter-alia, prohibition of keeping deposits with other urban cooperative banks; restricting borrowings from call money market to 2% of its deposits at the end of the previous financial year; increasing the component of investment in Government securities for SLR purposes; prohibition for lending directly or indirectly against security of shares either to individuals or any other entity; intrdouction of off-site surveillance system for scheduled urban cooperative banks, etc.

(d) and (e) Yes, Sir. Madhavpura Mercantile Cooperative Bank and four other banks viz. FriendsCooperative Bank Ltd., Mumbai, Western Co-operative Bank Ltd., Mumbai, First City Co-operativeBank Ltd., Hyderabad and Sitara Co-operative Bank Ltd., Hyderabad have been classified as `weak banks` on account of high erosion in the value of their assets, irregularities on their operations/ functioning as brought out in RBI inspection. Besides this, RBI has imposedcertain restriction on the operations of banks which includes precluding them from incurring any further liabilities, granting/renewing any loan, acquisition/ disposal of immovable property and making payment towards discharge of any liability except to the extent and in the manner provided in the Directives issued under Section 35A of the Banking Regulation Act,1949 (As Applicable to Co-operative Societies). In the case of Western Co-operative Bank, Sitara Co-operative Bank and the Madhavpura Mercantile Co-operative Bank the Board of Directorshave been superseded.